

新书发布仪式  
Book Launch

# Modernizing China

**Investing in Soft Infrastructure**

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织联合组办  
Hosted by IMF & NSD

# Roadmap 路线图

- Setting the stage
  - Fiscal policy frameworks
  - Monetary and financial policy frameworks
  - State-owned enterprise reform and public administration
- 
- 背景
  - 财政政策框架
  - 货币和金融政策框架
  - 国有企业改革和公共管理

# Setting the stage

China matters as never before

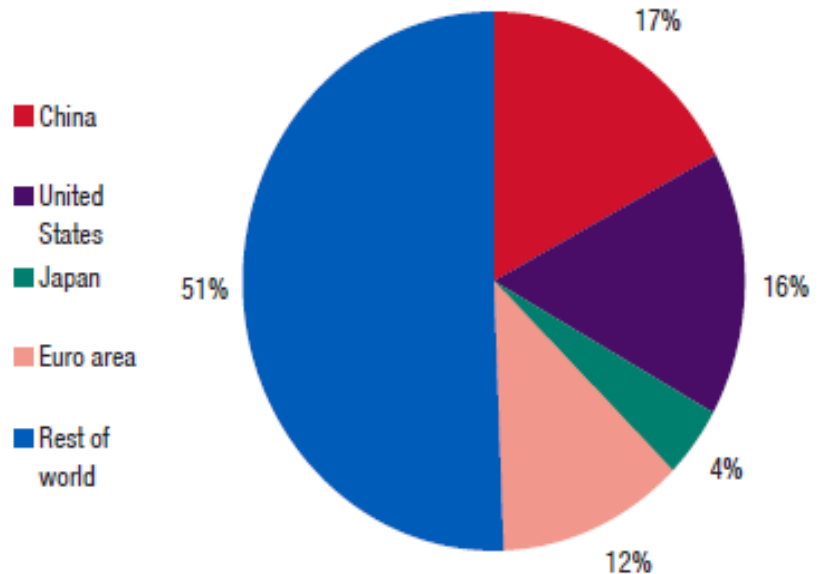
## 背景情况

中国从来没有如此重要

# Development and global footprint 发展和全球足迹

- Lifting 600 million out of poverty; middle class 150-200 million
- Physical infrastructure benchmark (e.g. high-speed trains)
- 1/3 of global growth
- Spillovers: 1 percent growth shock/ 0.3 percent in Asia
- 6亿人脱贫；中产阶级人数达到1.5至2亿人
- 实体基础设施标杆（例如高铁）
- 拉动1/3的全球增长
- 溢出：1%的增长冲击对亚洲造成0.3%的影响

Figure 1.1. China's Share in Global Output  
(Percent in purchasing power parity, 2015)



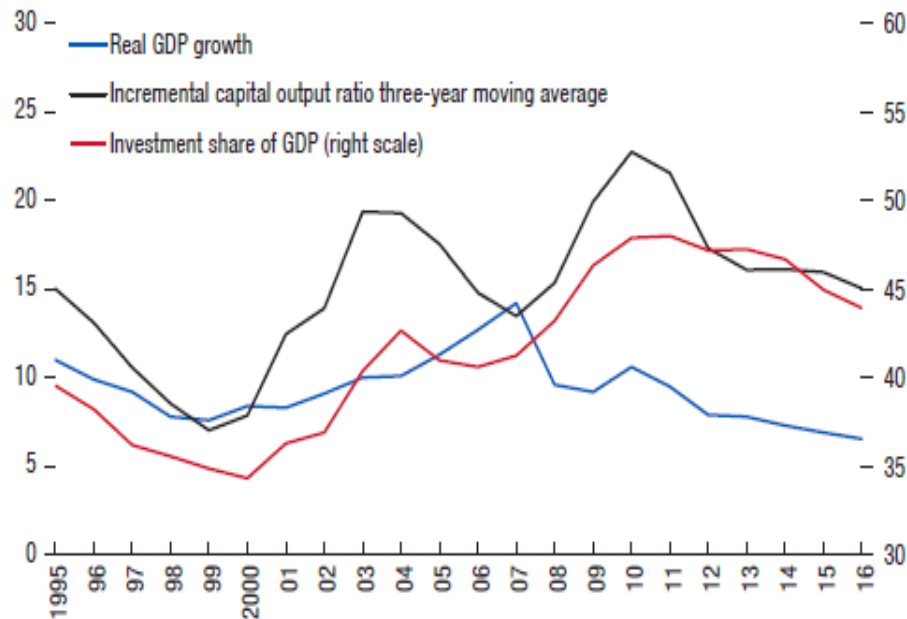
Source: IMF, *Regional Economic Outlook: Asia and Pacific*, April 2016.

# Credit-driven investment model: diminishing returns calls for new growth model

## 信贷驱动的投资模式： 回报率下降，亟需新的增长模式

- Global financial crisis stimulus
- Credit-driven investment
- Weaker investment efficiency
- Increasing consumption will be paramount
  
- 全球金融危机刺激
- 信贷驱动的投资
- 投资效率变差
- 增加消费是重中之重

Figure 1.4. Diminishing Returns on Investment  
(Percent)



Source: CEIC.

# Limits of traditional growth model

## 传统增长模式的局限性

- “unsteady, unbalanced, uncoordinated, and unsustainable development”  
March 2007 (WEN Jiabao)”
  - Global Financial Crisis further increased imbalances and vulnerabilities
  - Third Plenum (2013) comprehensive reform blueprint
  - 13<sup>th</sup> Five-Five Year Plan (2016) focus on growth quality, boosting consumption, expanding the services, further opening up the economy, etc.
- 
- 不稳定、不平衡、不协调和不可持续的发展”2007年3月（温家宝）
  - 全球金融危机进一步加剧失衡和脆弱性
  - 三中全会（2013）出台全面的改革蓝图
  - “十三五”规划（2016）强调增长质量、促进消费、扩大服务业、进一步推进经济开放等

# Rebalancing: complex and interlinked but paramount

## 再平衡：复杂且相互联系，但至关重要

Rebalancing toward:

- **Domestic demand, consumption, and services**
- **Sustainable corporate and local government debt**
- Better financial sector governance
- **Market allocation of resources**
- Productivity and innovation
- Inclusive and greener growth
- **Market-friendly transparent communication**

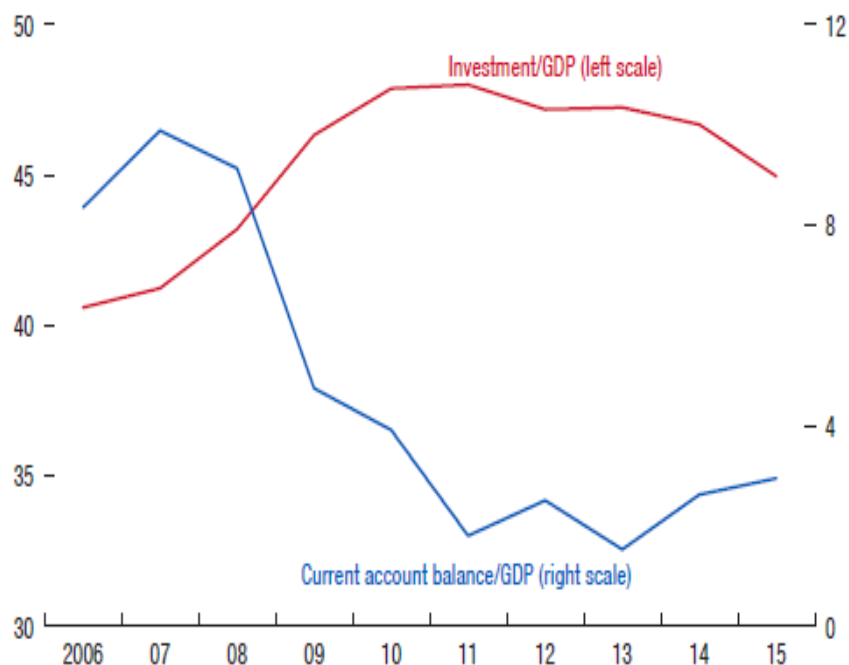
再平衡的方向：

- 内需，消费和服务业
- 可持续的企业债和地方政府债
- 更好的金融部门治理
- 以市场为基础的资源分配
- 生产力和创新
- 更加包容和绿色的增长
- 市场友好型的透明沟通

# Progress: external to domestic demand and services... 进展：从外需向内需和服务业的再平衡...

- Less reliance on external demand
- Growing share of private consumption, but investment (and savings) remains high
- Increasing share of services (service sector now accounts for 40 percent of employment)
- 减少对外需的依赖
- 私人消费占比增加，但是投资（以及储蓄）占比仍较高
- 提高服务业占比（目前服务业就业人数占总就业的40%）

Figure 1.5. Rebalancing from External to Domestic Demand  
(Percent of GDP)



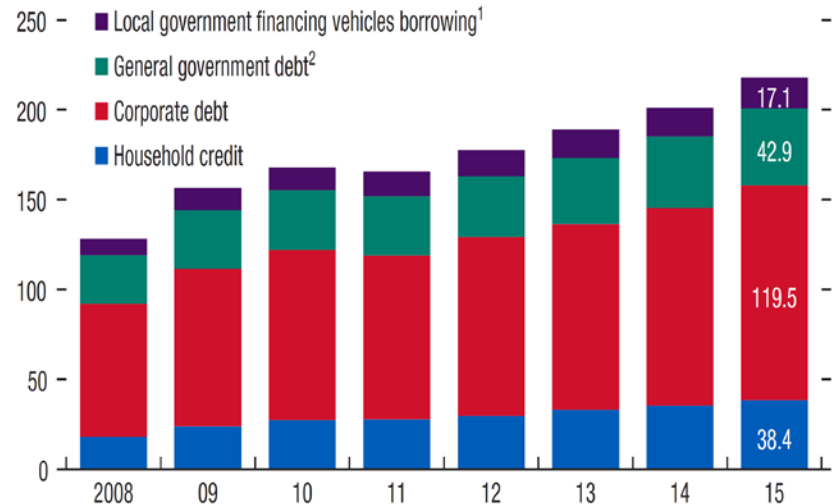
Sources: CEIC; and IMF staff estimates.



# ...but lagging in important areas ...但在重要领域仍滞后

- Strong surge in corporate debt
- Credit-driven growth model/target
- International experience sharp growth slowdowns (50 percent financial distress)
- 企业债飙升
- 信贷驱动的增长模式/目标
- 国际经验表明增长将显著放缓 (50%的情况下将导致金融困境)

**Figure 1.6. Sharp Increase in Credit**  
(Percent of GDP)



Sources: CEIC; and IMF staff estimates.

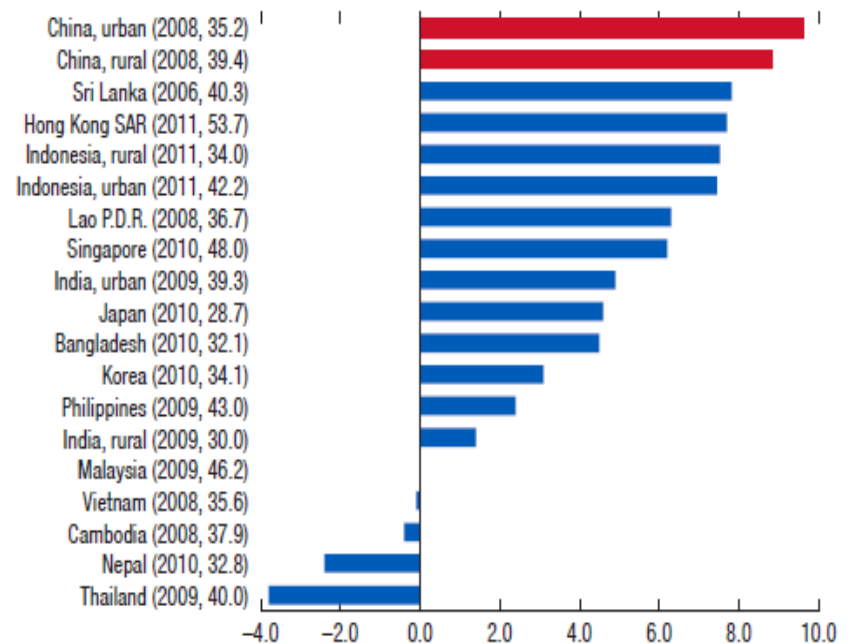
<sup>1</sup>Local government financing vehicle (LGFV) debt not classified as official general government debt. Total local government debt (official and LGFV debt not classified as official government debt) was about 40 percent of GDP in 2015.

<sup>2</sup>Includes part of LGFV debt that is recognized as official local government debt.

# Innovative, green, and inclusive growth 创新，绿色和包容的增长

- Less reliance on physical investment, cheap labor, government direction/ownership
- Markets with strong frameworks and in line with social and economic goals paramount
- China's commitment to environmental sustainability (e.g. signing the Paris Agreement)
- 降低对实体投资、低成本劳动力、政府指令/所有权的依赖
- 建立具有强劲框架的、符合社会和经济目标的市场机制至关重要
- 中国政府承诺实现环境可持续（例如签订《巴黎协定》）

Figure 1.9. Asia: Change in Gini Index, Past Two Decades  
(Gini points, since 1990)



Sources: National authorities; World Bank; and IMF staff calculations.  
Note: The latest available year and corresponding Gini coefficients are in parentheses.

# Market allocation of resources

## 市场化的资源分配

- Economic liberalization, but limited market discipline (e.g. bankruptcies)
- Need to enforce rules
- Firm exits
- Social safety nets and resolution frameworks
- 经济自由化，但市场纪律不完善（例如破产）
- 需要执行规则
- 企业退出
- 社会安全网和处置框架

Figure 1.10. Insolvency Framework  
(Number of cases, 2014)



Sources: China Court; Credireform; Euler Hermes; Sinotrust; U.S. Trust Offices; and UK Insolvency Service.

# Toward timely, reliable, and market-friendly, and transparent communication

## 走向及时、可靠、市场友好型的透明沟通

- Communications to guide markets and increase policy effectiveness
- Both domestic and global audience
- China's unique institutional set-up
- 通过沟通指导市场并加强政策有效性
- 对国内和全球受众都是如此
- 中国独特的制度背景
- Data gaps (e.g.):
  - GDP
  - Labor market statistics
  - “New economy”
  - Local government borrowing
- 数据缺口（例如）：
  - 国内生产总值
  - 劳动力市场统计数据
  - “新经济”
  - 地方政府借贷

# Investment in “soft” infrastructure and political economy

## 投资于“软”基础设施和政治经济体制

- “overcoming institutional challenges” ...greater emphasis on “soft areas” (Premier Li, September 2016)
- Overcome strong vested interest groups (President Xi, September 2016)
- External anchors (e.g. WTO accession in 2001) fostered competition and enterprise restructuring
  
- “克服制度上的挑战” ...更多强调“软性领域”（李总理，2016年9月）
- “敢于触及深层次利益关系和矛盾”（习主席，2016年9月）
- 外部锚（例如2001年入世）推进竞争和企业重组

# Fiscal policy frameworks

Reducing vulnerabilities, supporting macro-management and more equitable growth

## 财政政策框架

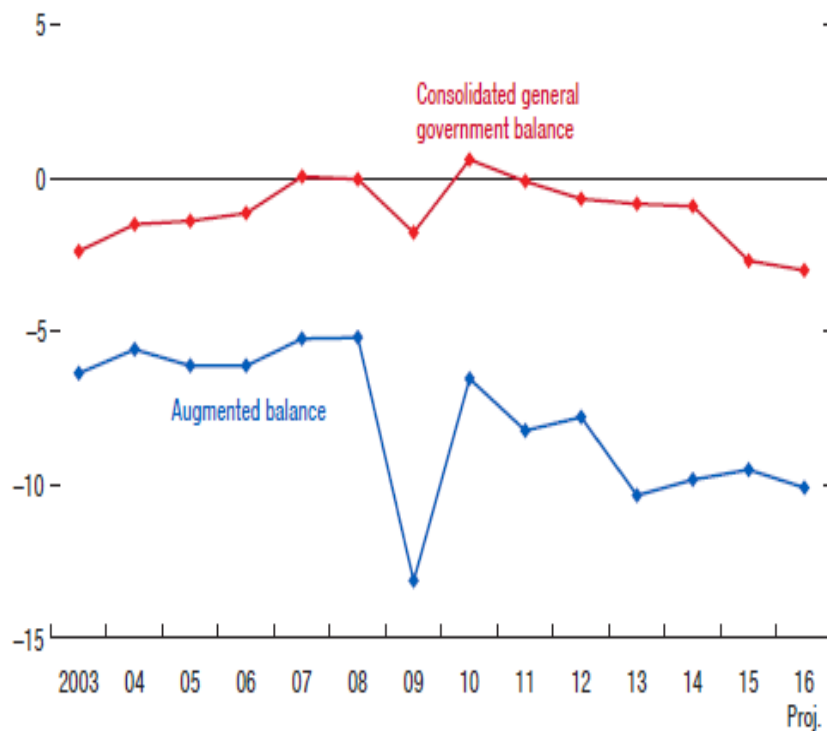
减少脆弱性，支持宏观调控和更加公平的增长

# Key driver of fiscal deficits: local governments

## 财政赤字的关键驱动因素：地方政府

- Focus on “augmented” fiscal deficit and debt
- New budget law
- Local governments borrow through more obscure sources; government guided funds
- Local governments on sound fiscal footing
- 关注“增扩”财政赤字和债务
- 新预算法
- 地方政府通过不透明的渠道贷款；政府引导基金
- 地方政府财政状况稳健

Figure 1.8. Fiscal Deficit Remains Large, but More On-Budget  
(Percent of GDP)



Sources: CEIC; Chinese authorities; and IMF staff estimates.

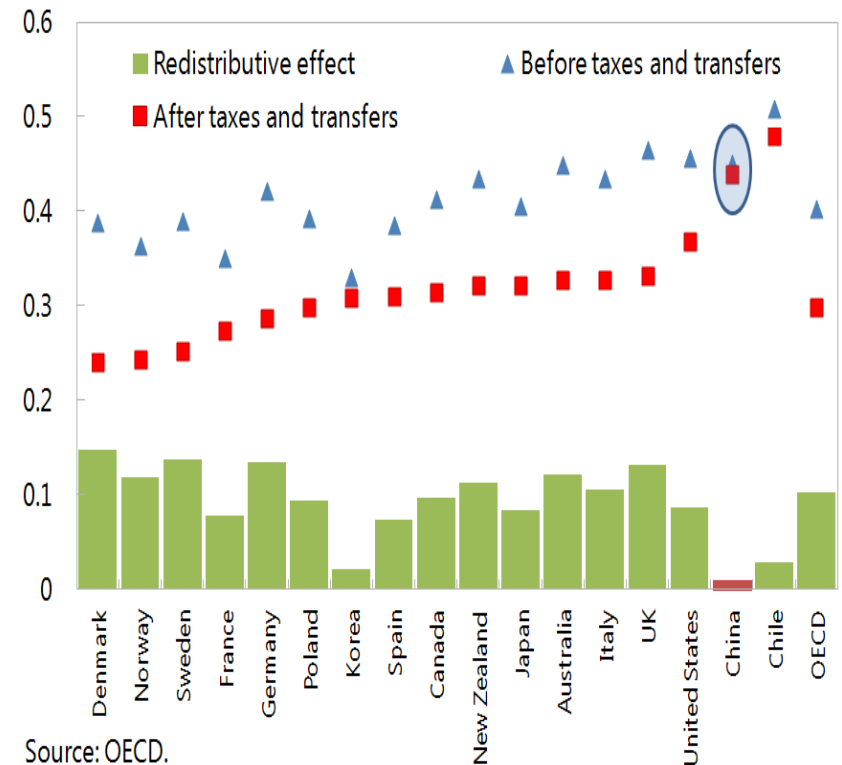
# Tax policy: rebalancing and better allocation of resources

## 税收政策：再平衡和更好的资源分配

- Tax burden 20 percent of GDP
- Key issues:
  - Redistribution limited
  - Tax tilted toward indirect taxes
  - Environmental externalities
- Reform progress (e.g. VAT)
- Key reforms
  - Widening the tax base and progressivity
  - Shift from indirect to direct taxes (redistribution)
  - Environmental taxes
- 税负占GDP的20%
- 关键议题:
  - 再分配有限
  - 税收倾向于间接税
  - 环境外部性
- 改革进展（例如增值税）
- 关键改革
  - 扩大税收基础，加强税收累进性
  - 从间接税向直接税过渡（再分配）
  - 环境税

### 6. Redistributive Effect of Taxes across OECD relative to China

(Gini Coefficient between 0 and 1)



Source: OECD.

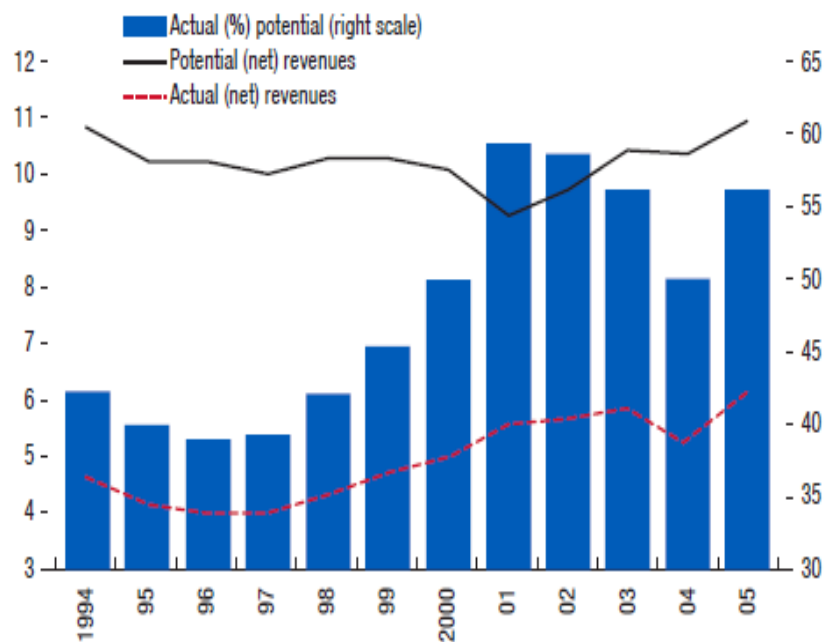


# Tax administration faces challenges

## 税收管理面临挑战

- Internal
  - Compliance
  - Rapidly growing service sector
  - More complex financial instruments
  - Future new taxes
- External
  - “Going global” and risk that companies shift income to low-tax jurisdictions
- Administrative capacity
- 内部
  - 合规
  - 服务业快速增长
  - 更加复杂的金融工具
  - 未来的新税种
- 外部
  - “走出去” 以及企业迁至低税辖区的风险
- 管理能力

Figure 3.2. Value-Added Tax Compliance Ratio (Percent)



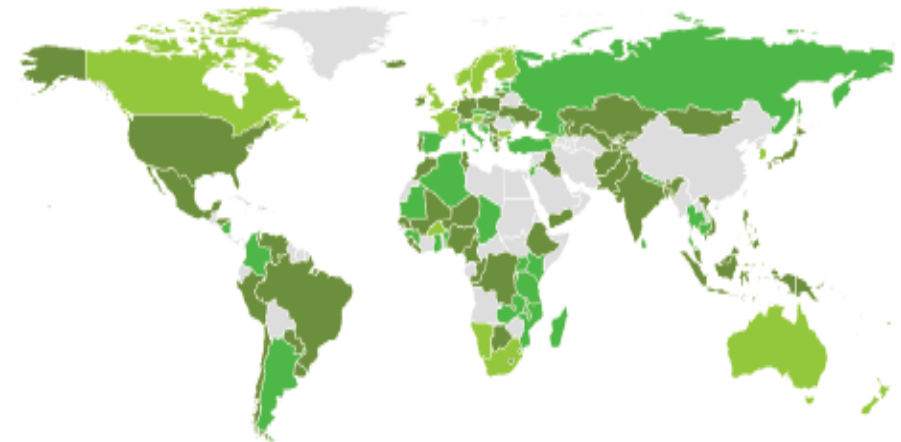
Source: IMF staff calculations.

Note: left scale: VAT actual and potential revenue as percent of GDP; right scale: VAT efficiency ratio in percent.

# Medium-term (MT) expenditure framework: fiscal discipline, identify risks, foster counter-cyclical policies 中期支出框架：财政纪律，确定风险，加强逆周期政策

- Adopted > 130 countries
  - Gap between Five-Year Plan and annual budgets
  - Key elements:
    - MT fiscal policy targets
    - Forecasting
    - Strategic decision-making about fiscal space
  - Increased collaboration
- 
- 超过130个国家接受这一框架
  - 五年计划和年度预算之间存在差距
  - 关键要素：
    - 中期财政政策目标
    - 预测
    - 关于财政空间的战略性决策
  - 加强协作

Figure 4.2. Medium-Term Expenditure Frameworks Globally, 2008



#### Medium-Term Expenditure Frameworks

- No medium-term expenditure framework
- Medium-term fiscal framework (n = 71)
- Medium-term budgeting framework (n = 42)
- Medium-term program framework (n = 19)

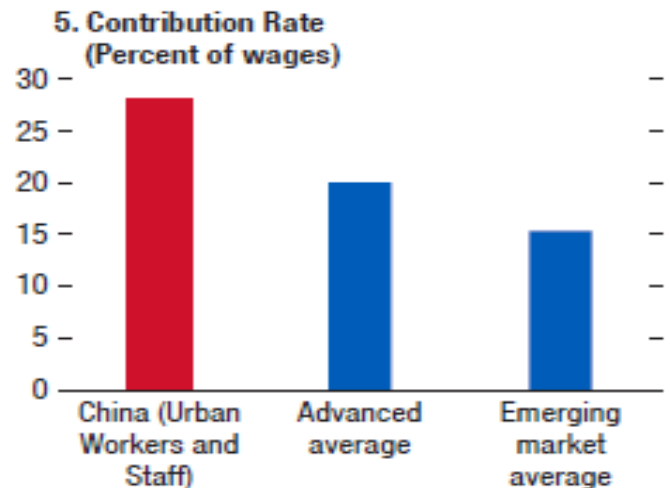
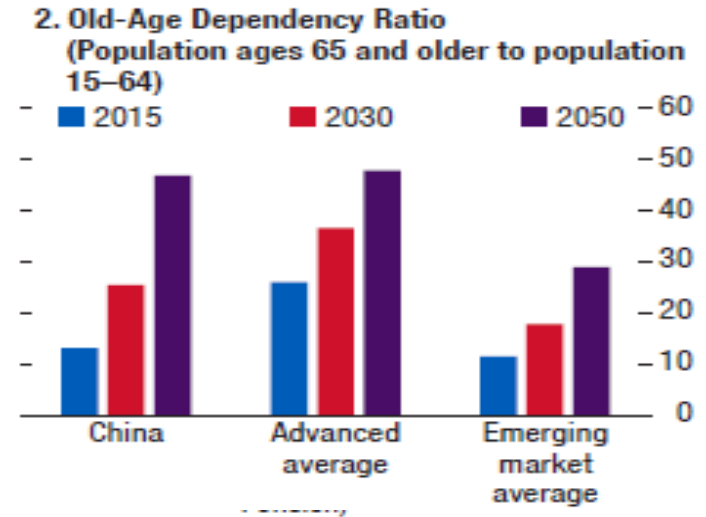
Source: World Bank 2012.

# Social security reform: sustainability, equitable, and rebalancing

## 社会保障改革：可持续性、公平性和再平衡

- Rapid population aging
- Actuarial imbalance (120 percent of GDP by 2050)
- Rebalancing and long-term sustainability
- Labor market mobility
- Parametric reform
- Reduction in contribution rates and better portability

- 快速的人口老龄化
- 精算失衡（2050年将达到GDP的120%）
- 再平衡和长期可持续性
- 劳动力市场灵活性
- 制度内的技术性调整
- 降低缴费率并加强转移接续



# Monetary and financial policy frameworks

Moving from quantitative to price-based  
frameworks

# 货币政策和金融政策框架

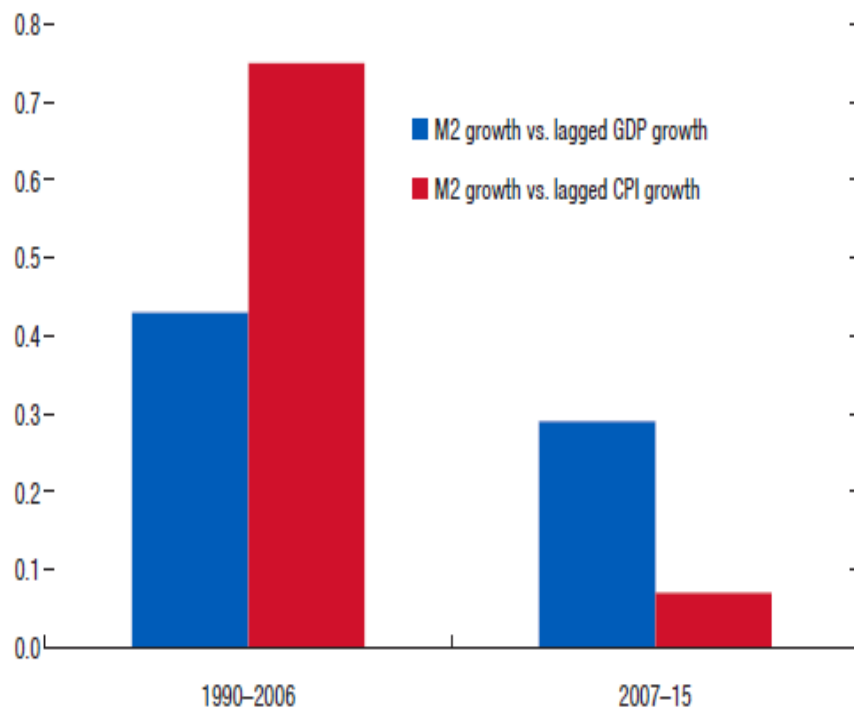
从数量型向价格型框架的过渡

# Moving toward a market-based monetary policy framework

## 向以市场为基础的货币政策框架过渡

- PBC's objectives: inflation, BOP, growth, financial stability
- Tools: M2 target
- Correlation between M2 and inflation/growth declined
- Moving toward flexible exchange
- 7 day repo rate
  
- 人民银行的政策目标：通胀，国际收支，增长，金融稳定
- 工具：M2目标
- M2和通胀/增长之间的相关性下降
- 向更加灵活的汇率过渡
- 7天回购利率

Figure 7.2. Weakening Correlation between M2 Growth and the Real Economy  
(Correlation coefficient between 0 and 1)



Sources: WIND; and authors' estimation.  
Note: CPI = consumer price index.

# Capital account liberalization

## 资本账户开放

- Current goal: managed capital account convertibility
- Liberalization broadly in line with IMF's institutional view
- De jure 43 out of 53 categories have controls, but evidence de facto more open
- Opening and capital flows
- Liberalization and supporting reforms
- 当前目标：有管理的资本账户可兑换
- 开放基本符合国际货币基金组织的机构观点
- 从法律规定上看，53项中的43项仍存在控制，但实际上更加开放
- 开放和资本流动
- 开放和配套改革

Table 1.1. Potential Sequencing of Capital Account Liberalization

Key Steps	Other Accompanying Reforms Needed	Specific Measures
<ul style="list-style-type: none"> <li>• Gradual increase of quotas; relaxing qualification requirements (in- and outflow foreign direct investment and portfolio investment)</li> </ul>	<ul style="list-style-type: none"> <li>• Modernizing monetary policy framework</li> <li>• Implementing hard budget constraints</li> <li>• Reforming state-owned enterprises, addressing high corporate debt</li> </ul>	<ul style="list-style-type: none"> <li>• Deepening financial markets</li> <li>• Strengthening regulation and supervision</li> <li>• Building up capital and liquidity buffers</li> <li>• Adequate investment regulations (institutional)</li> <li>• Contingency plans</li> </ul>
<ul style="list-style-type: none"> <li>• Replacing quotas and qualification requirements with price-based controls (unremunerated reserve requirements or tax)</li> </ul>	<ul style="list-style-type: none"> <li>• Further strengthening monetary and exchange rate framework</li> <li>• Continued reform of state-owned enterprises and corporate sector</li> <li>• Enhancing monitoring of capital flows</li> </ul>	<ul style="list-style-type: none"> <li>• Continued financial market deepening</li> <li>• Introducing net stable funding ratio/liquidity charges on noncore funding</li> <li>• Higher risk weights on foreign exchange loans</li> <li>• Eliminating direct lending</li> <li>• Expanding the regulatory perimeter to shadow banking/corporate sector</li> </ul>
<ul style="list-style-type: none"> <li>• Gradual move from preapproval to registration and notification requirement followed by reporting requirement</li> </ul>	<ul style="list-style-type: none"> <li>• Continued improvement of monetary and exchange rate framework</li> <li>• Adequate capital flow monitoring framework</li> </ul>	<ul style="list-style-type: none"> <li>• Continued deepening of financial markets</li> <li>• Further strengthening of supervisory and regulatory framework</li> </ul>
<ul style="list-style-type: none"> <li>• Removal of most controls</li> </ul>	<ul style="list-style-type: none"> <li>• Track record of well-defined, credible monetary policy and full exchange rate flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate supervisory, micro-, and macroprudential framework</li> </ul>

Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions*; and IMF staff.

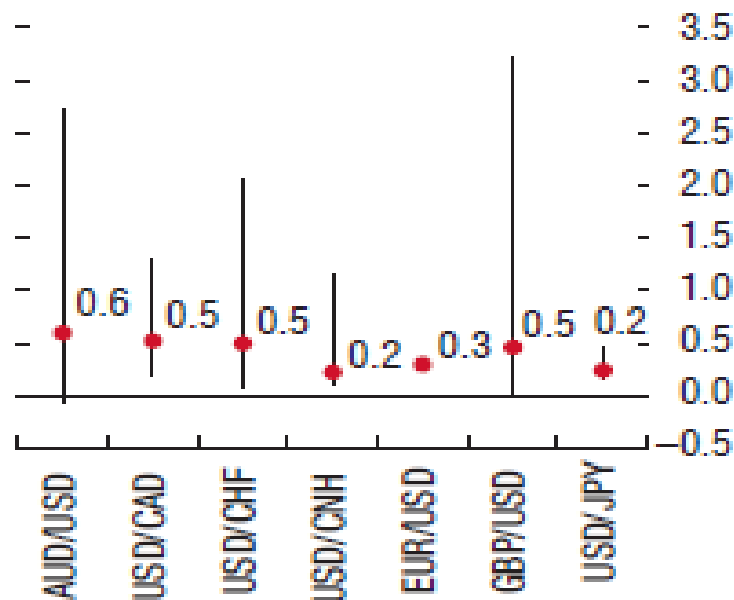
# RMB internationalization reflects reform progress

## 人民币国际化反映改革进程

- RMB's use for trade settlement and direct investment (2009)
- High frequency indicators and offshore markets
- SDR basket reflects RMB's global role
- Price and interest discovery and policy frameworks
- Supporting reforms and economic fundamentals will also be key drivers
- 人民币用于贸易结算和直接投资（2009）
- 高频指标和离岸市场
- 特别提款权篮子反映人民币的全球地位
- 价格和利率发现以及政策框架
- 配套改革和经济基本面也是关键驱动因素

Figure 9.5. Liquidity Indicators by Currency Pair  
(Daily averages, basis points)

### 2. Effective Trading Cost



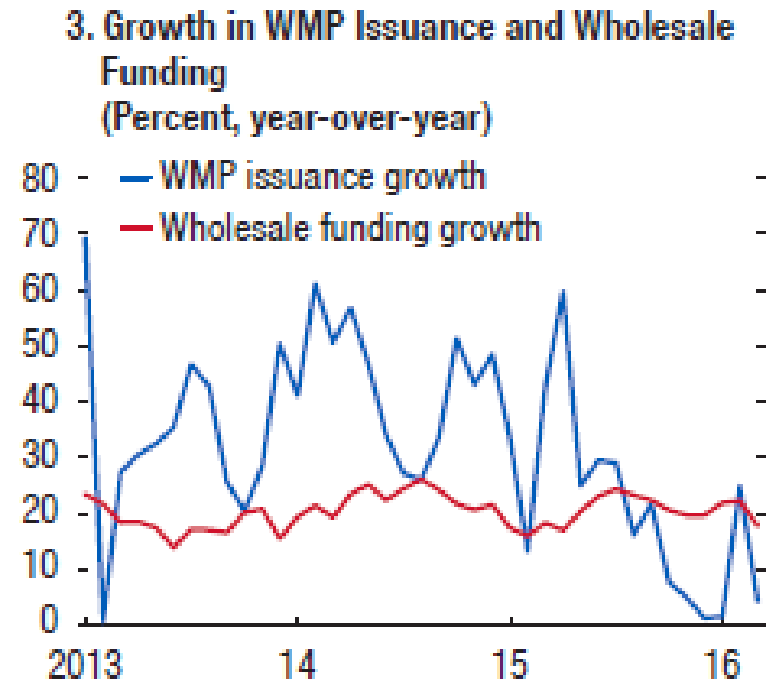
Sources: Electronic Broking Services (EBS); and IMF staff calculations.  
Note: Vertical lines show the 25th percentile and 75th percentile range.

# A rapidly changing financial system calls for constant upgrading of regulation and supervision

## 金融体系快速演变，监管需要持续升级

- Highly innovative but also complex and opaque
- World's largest banks, second largest stock-, and third largest bond markets
- Credit driven public investment-led growth model and shadow products
- Linkages and risks
- Coordination and information sharing
- 创新性很强但复杂且不透明
- 全球最大的银行，第二大的股市，第三大的债券市场
- 信贷驱动的公共投资增长模型和影子产品
- 联系和风险
- 协作和信息共享

Figure 10.4. Nonstandard Lending and the Nonbank Financial System



Sources: Bloomberg L.P.; CEIC; national authorities; WIND; and IMF staff calculations.  
Note: WMP = wealth management product.



# State-owned enterprise reform

Achilles heel to ensure a better allocation of  
resources and addressing rising vulnerabilities

## 国有企业改革

改善资源分配和应对加剧脆弱性的  
“阿喀琉斯之踵”

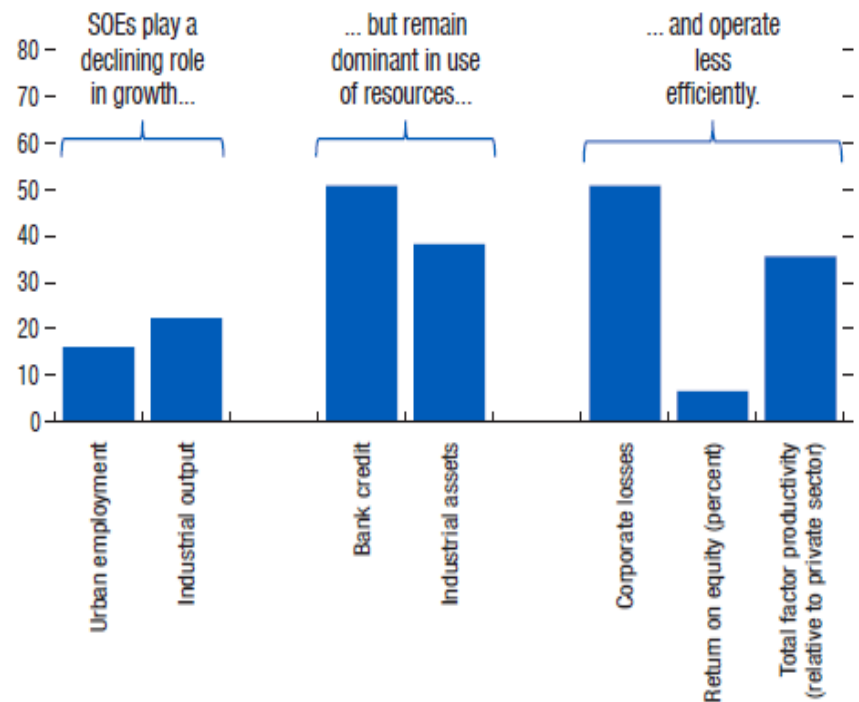
# State-owned enterprise reform: productivity increase and reduction in vulnerabilities

## 国有企业改革：提高生产力，降低脆弱性

- Declining share
- 150,000 SOEs accounting for 50 percent of bank credit
- High leverage, especially in overcapacity sectors and “zombie” firms
- Productivity less than half of private companies

- 比重降低
- 15万家国有企业占银行信贷的50%
- 高杠杆，特别是产能过剩行业和“僵尸”企业
- 生产力不及私企一半

Figure 11.1. SOEs Dominate Resource Use and Operate Less Efficiently  
(SOEs' share of total unless otherwise stated<sup>1</sup>)



Sources: CEIC; Ministry of Finance; National Bureau of Statistics; People's Bank of China; WIND; and IMF staff estimates.

Note: SOE = state-owned enterprise.

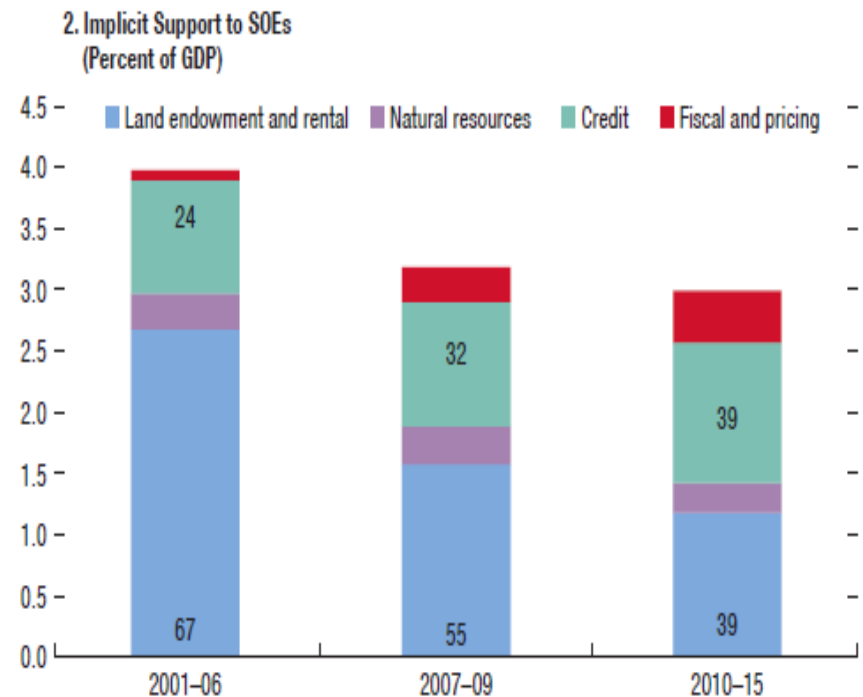
<sup>1</sup> Sample period as of end-2015 where data are available. Bank credit and total factor productivity are average between 2011 and 2015.

# SOE reform progress slow: key questions still remain

## 国企改革进展缓慢：关键问题犹存

- 13<sup>th</sup> Five Year plan and State Council directives
- Details and non-economic objectives
- Successful SOE reform
  - Triage
  - Allow exits
  - Harden budget constraints Reduce barriers to entry
  - Create level playing field
- “十三五”规划和国务院指令
- 细节和非经济目标
- 成功的国企改革：
  - 分类
  - 允许退出
  - 实现预算硬约束，降低准入障碍
  - 创造公平的竞争环境

Figure 11.5. Implicit Support to SOEs Contributing to Resource Misallocation



Sources: CEIC; Unirule Institute of Economics 2015; and IMF staff estimates.

Note: SOE = state-owned enterprise.

<sup>1</sup> Numbers in the bar chart refer to the share of total implicit support.

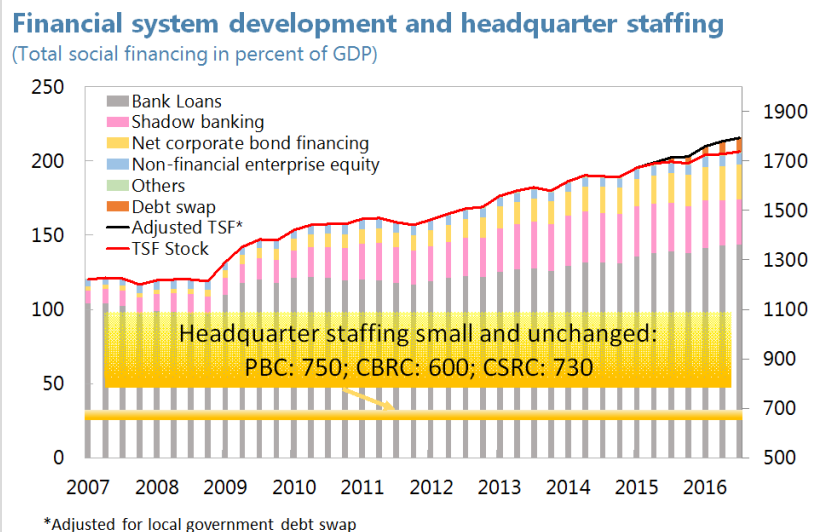
# Public administration

Strengthening headquarter staffing

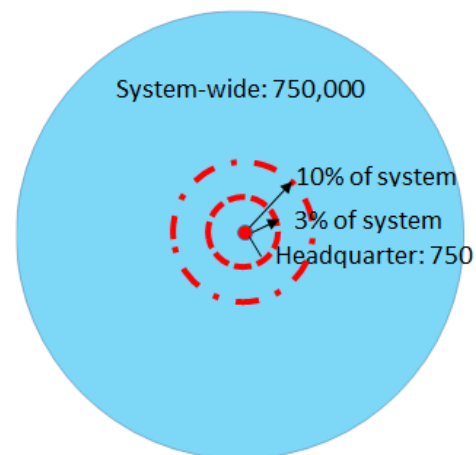
公共管理  
加强总部人员配备

# Strain on public institutions 公共机构面临压力

- Government large
- Staffing at headquarters and international experience
- 2011 Financial Sector Adjustment Program and staffing
- 政府规模大
- 总部人员配备和国际经验
- 2011年金融部门评估规划和人员配备



## Tax administration (SAT) staffing and international experience



Thank you  
谢谢